



STATE OF DELAWARE

PUBLIC SERVICE COMMISSION

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MEMORANDUM

June 15, 2017

TO: The Chair and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

SUBJECT: In the Matter of the Application of Sussex Shores Water Company for the Approval of the Semi-Annual Adjustment to the Distribution System Improvement Charge (DSIC) Pursuant to 26 Del. C. § 314 (Filed November 30, 2015) – PSC Docket No. 15-1602

On November 30, 2015, Sussex Shores Water Company ("Sussex Shores" or the "Company") filed an application to set their Distribution System Improvement Charge ("DSIC Rate") at 2.83% with an effective date of January 1, 2016. This DSIC Rate was based on net plant additions of \$266,646 placed into service between May 1, 2015 and October 31, 2015, along with an associated semi-annual depreciation expense of \$1,894

On December 15, 2015, by way of PSC Order No. 8834, the Commission opened Docket No. 15-1602 that approved the request by the Company to set the DSIC Rate, subject to annual review, audit and reconciliation to be performed by Staff based on the 12-month period ending December 31, 2016.

On March 13, 2017, the Commission Staff ("Staff") received the requested information for Docket No. 15-1602 and conducted the audit and review of the DSIC Rate. The audit consisted of the procedures utilized for each of the water companies undergoing annual DSIC Rate audits. The audit concentrated on the three major components of the DSIC Rate; namely, Rate Base, Rate of Return, and Depreciation.

Findings for PSC Docket No. 15-1602: Effective Period January 1, 2016 – June 30, 2016

Staff began by reviewing a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

Staff then reviewed the Rate Base Components of the DSIC Rate calculation. The plant additions were reviewed for conformity to the requirements of the legislation. Plant additions were traced by project and by account to the work orders and then to the general ledger. The Capital Expenditures Authorizations and Retirement Work Orders were reviewed to ascertain that appropriate expenditures were included in the Rate Base components of the DSIC Rate. Staff believes that the plant portions of the DSIC Rate calculation to be accurate.

Staff tested the Semi-Annual Depreciation Expense component of the DSIC Rate. The total depreciation as calculated by the Company agreed with the amount posted to the General Ledger, and the rates were the ones approved by the Commission.

Finally, Staff reviewed the Company's quarterly Rate of Return reports filed with the Commission. It was determined that, based on the quarterly Rate of Return reports for the 12 month periods ending December 31, 2015 and March 31, 2016, that the Company was earning a return on its rate base in excess of what was approved in the Company's last rate case¹. Thus, per 26 Del. C. § 314(b)(10), the Company was not authorized to collect DSIC Revenue during the first and second quarters of calendar year 2016.

The Company collected \$20,704.54² in DSIC revenues from January 1 – June 30, 2016. This amount will need to be refunded to customers in its entirety, plus interest.

The Company's quarterly Rate of Return reports for the 12 month periods ending June 30, 2016 and September 30, 2016 showed that the Company's Rate of Return had dropped below its authorized Rate of Return. Thus, the Company's collection of DSIC revenue during the third and fourth quarters of calendar year 2016 is in compliance with 26 Del. C. § 314.

The Company collected \$27,261.88 in DSIC revenues from July 1 – December 31, 2016. This resulted in an over-collection of the semi-annual DSIC Revenue Requirement. Per Schedule 1 of the Company's DSIC Rate Application, the semi-annual DSIC Revenue Requirement was \$20,506. Thus, the over-collection amount for the period from July 1 – December 31, 2016 was \$6,755.88³, and will be included in the refund issued to customers.

¹ The Company's authorized Rate of Return from PSC Docket 07-278 is 8.78%

² The Company collected \$9,765.89 in DSIC revenues during the first quarter and \$10,938.65 during the second quarter for a total \$20,704.54, however, the interest on each quarter's total will be calculated separately.

³ (Over)/under-collection amounts are not subject to interest because they are the results of revenues collected based on estimated future total company revenues.

Refund Plan and Calculation of Interest

The Federal Prime Interest Rate was 3.50% on the first of the month for every month during calendar year 2016. Since the Company bills on a quarterly basis, any interest was calculated on an annual basis with the middle month of the respective quarter as the start date. The total amount to be refunded to customers was calculated as follows:

2016 1st quarter DSIC revenue refund amount: $9,765.89 \times (1 + 3.5\%)^{17/12} = 10,253.62$

2016 2nd quarter DSIC revenue refund amount: $10,938.65 \times (1 + 3.5\%)^{14/12} = 11,386.60$

Total refund amount: $10,253.62 + 11,386.60 + 6,755.88 = 28,396.10$

The Company shall refund the amount stated above, as a one-time percentage refund, applied to all bills rendered between July 1, 2017 and September 30, 2017, inclusive, and shall be broken out as a separate line item on customers' bills.

The refund percentage to be applied to customers' bills was calculated to be: - 4.93%.

This refund percentage was calculated by taking the total refund amount and dividing it by \$576,490.73. \$576,490.73 is the total of the Metered Sales, Demand Charge, and Fire Protection revenues for the months of July, August, and September 2016 per the Company's July, August, and September 2016 Income Statements. These 3 months were used in this calculation because they are the months from 2016 that correspond to the 2017 months in which the refund will be issued.

Staff has notified the Company that it is to cease collection of DSIC on all bills rendered on and after July 1, 2017. Staff also notified the Company that the DSIC revenues collected by the Company during the period from January 1 – June 30, 2017 will need to be refunded to customers due to the Company's quarterly Rate of Return reports for the 12 month periods ending December 31, 2016 and March 31, 2017 indicating that the Company's Rate of Return again exceeding what is authorized. This refund amount will be finalized and addressed as part of the calendar year 2017 DSIC audit next year.

In addition to the Company, Staff has shared its findings with the Public Advocate. There does not appear to be any disputes among the parties. Therefore, Staff recommends that the Commission direct the Company to issue the refund in the manner presented in the refund plan above. PSC Docket No. 15-1602 will remain open until the Company has completed this refund and Staff has had the opportunity to review the Company's proof of refund.